

This record is a partial extract of the original cable. The full text of the original cable is not available.

C O N F I D E N T I A L SECTION 01 OF 03 ACCRA 001284

SIPDIS

EB/IFD/OMA (FCHISHOLM)
TREASURY FOR LUKAS KOHLER, ALEX SEVERENS, JOHN RALYEA

E.O. 12958: DECL: 06/30/2010

TAGS: [EFIN](#) [ECON](#) [GH](#)

SUBJECT: GHANA'S PRESIDENT KUFUOR RAISES CONCERNS ABOUT
U.S. VIEWS ON GHANA'S DEREGULATION OF PETROLEUM SECTOR

REF: ACCRA 1162

Classified By: Ambassador Mary C. Yates for Reasons 1.5 (B and D)

Summary

1. (C) Ambassador Yates met June 29 with President Kufuor, at his request. Kufuor complained about reports that the U.S. had attempted to delay the June 20 Board review of Ghana's IMF program over concerns on petroleum deregulation. Ambassador reassured Kufuor that the USG had supported Ghana's IMF program at the Board meeting, even while raising concerns that deregulation was incomplete. She noted the U.S. was not alone in raising such concerns, and pointed out that high world oil prices seemed here to stay, so Ghana needed to find a long-term solution to deal with the adverse economic impact. Kufuor assured that the GoG would fully implement the deregulation plan, including market-driven fuel pricing. However, he pleaded for consideration of the hardship Ghanaians face, arguing that hiking fuel prices now would give ammunition to the opposition and could destabilize Ghana and his government. End Summary.

2. (C) President Kufuor called in the Ambassador on June 29, purportedly because he wanted to respond to perceived Embassy concerns about Ghana's petroleum deregulation plan (see Reftel for Embassy position on problems with petroleum deregulation). He had assembled a large team to participate in the meeting, including Finance Minister Kwadwo Baah-Wiredu, Special Assistant and Secretary to the President Ambassador D.K. Osei, Chief of Staff and Minister for Presidential Affairs Kwadwo Mpiani, and Press Secretary Kwabena Agyepong. Ambassador was accompanied by EconChief Chris Landberg.

3. (C) Instead of focusing on Embassy concerns, he concentrated on reports he had received that the U.S. Treasury Department had attempted to delay the June 20 Board review of Ghana's IMF program. According to these reports, Treasury argued that Ghana had not fulfilled its commitment to allow automatic adjustment of petroleum prices and eliminate fuel subsidies. Kufuor argued that postponement of the Board meeting would have damaged Ghana by further delaying essential IMF, World Bank and bilateral disbursements.

4. (C) Ambassador Yates reassured Kufuor that the U.S. Executive Director had supported Ghana at the June 20 IMF Board meeting on the Third Review of Ghana's Poverty Reduction and Growth Facility (PRGF). Indeed this had been the position the Embassy had recommended back to Washington. She noted, however, that the USED had questioned whether Ghana had fulfilled its commitment to eliminate fuel subsidies by ensuring full cost recovery in the petroleum sector. The Ambassador also commented that several other IMF Board members had raised concerns about implementation of petroleum deregulation and other aspects of Ghana's IMF program, such as the three waivers Ghana had required.

5. (C) The Ambassador said the USG joined the IMF and other development partners in congratulating Ghana for the politically difficult decision it made in February 2005 to increase fuel prices by 50%. The USG also agreed with the IMF's overall positive assessment of Ghana's economic performance. However, she noted the Embassy and U.S. agencies, including Treasury, were concerned about how Ghana planned to deal with record high world oil prices. She said her Economic Section had been doing its job and asking tough questions, and the subject was also central to a high-level Treasury visit on May 20 (led by David Loevinger, Treasury DAS for Africa, Middle East, and Asia). Based on the Embassy's work and the Treasury visit, the USED had recommended to IMF staff that they continue to monitor petroleum deregulation -- with the goal of ensuring full cost recovery -- under the fourth and subsequent PRGF reviews.

6. (C) Kufuor countered that the USG should not worry about his government's strong commitment to petroleum deregulation. Nevertheless, he gave a somewhat mixed signal on whether the GoG would be able to meet its IMF commitment to end fuel subsidies and achieve full cost recovery. On the one hand, he argued the GoG had almost finished setting up the new,

autonomous National Petroleum Authority (NPA), established under the National Petroleum Act that Parliament passed June 14. The NPA, headed by a Chairman who "is not a party (NPP) man," would have full responsibility to organize fuel tenders and set prices (according to an agreed formula). Kufuor even stated that the GoG would "use the NPA as the fall guy" when prices rise.

17. (C) On the other hand, Kufuor agonized over the damage higher fuel prices would have on the public, and on Ghanaians' support for his government. He argued that raising prices now in response to near \$60/bbl world market prices would destabilize Ghana and undermine his government. He noted that the opposition party, NDC, and especially its founder and Kufuor's leading domestic critic, ex-President Jerry Rawlings, is unrelenting in its criticism of the NPP for higher fuel prices and IMF-supported economic policies. Rawlings claims NPP policies are responsible for lower living standards for ordinary Ghanaians. (Note: Kufuor went on at some length about the common man's poverty and the embarrassingly low salaries in Ghana. He said he and his cabinet are constantly discuss mechanisms that would help raise salaries. End Note)

18. (C) Kufuor brought out a newspaper article from 2000, quoting then President Rawlings stating "let's adjust fuel prices to face realities." He said this was proof that Rawlings and the NDC were just using the dire situation Ghana currently faces to score political points. (Comment: Kufuor provided a copy to Ambassador and after a close read we note that he did not highlight the part of the article that mentions strong criticism from the NPP -- then in the opposition -- of Rawlings call for higher prices; so, the NDC might argue that turnabout is fair play. End Comment)

19. (C) Given political realities, and also in light of the low wages that most Ghanaians earn, Kufuor argued the GoG could only survive gradual price liberalization. He pointed out that high fuel prices have a disproportionately negative impact on low-wage countries, and pleaded for the USG to understand that the GoG would have to bring the Ghanaian people along "step by step." He assured Ambassador that Ghana would fully implement petroleum deregulation, including price liberalization, but over time. "We are getting there," he said, but "bit by bit." He asked for USG support "for its good friend Ghana," pointing out that it serves no one's interest to undermine all the positive reforms his administration has undertaken.

Comment

10. (C) President Kufuor was still on a high from his recent U.S. trip and meeting with President Bush. He began his remarks with a strong expression of appreciation for this meeting and also for the G8 Finance Ministers agreement on debt relief. He then turned to his concern about U.S. perceptions of Ghana's implementation of petroleum deregulation.

11. (C) One extraordinary result of this meeting is that Kufuor indirectly admitted that his government might not be fully committed to allowing prices to rise in response to higher world prices, despite GoG assurances to the IMF to the contrary. The IMF argues that the autonomous NPA will ensure prices are set to cover costs and avoid the need for government subsidies. However, Kufuor clearly believes the Ghanaian public is not ready for more price hikes and is worried about social unrest and political attacks from the NDC. So, it is unclear that Kufuor would support (or even allow) an NPA decision to raise prices, even though price increases are clearly necessary with world crude prices roughly 25% higher than the level the GoG used to calculate the 50% increase in February.

12. (C) The GoG's strategy to date has been to make promises to the IMF in the hope world prices would fall, thus alleviating the need for retail price hikes. It seems to be sinking in among GoG officials that prices are likely to stay at current high levels for the foreseeable future, or go higher. Finance Minister Baah Wiredu commented that Ghana is seeking support from the IMF to deal with higher world prices. He pointed out to EconChief following the meeting that Ghana is importing close to \$500 million more in oil per year over a few years ago. (Note: this is almost equal to total annual grant assistance to Ghana. End Note)

13. (C) Post hopes the GoG will allow the NPA to operate autonomously, which would resolve this issue. However, Post also agrees with Kufuor that another large price hike could cause problems for the GoG. Although public protests to date have been on the light side, the chorus of criticism against the government's economic policies is growing. Since the end goal is for Ghana to have a liberalized petroleum sector, with full pass through of world prices to local retail prices, we may have to recognize that this may take longer than expected. We should endeavor to keep the GoG on the reform path, but not necessarily punish the GoG for following

a more gradual path. End Comment.
YATES